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Alberta ECONOMIC OUTLOOK

APRIL 1973

ALBERTA – NATIONAL AFFAIRS

Inflation continues to be the major economic problem facing the Canadian economy. First indications of the Bank of Canada's monetary policy for 1973 suggests credit restraint to depress the mounting inflationary pressures in the economy. The Bank of Canada has announced a ½ of 1 per cent increase in its prime lending rate, which the four major chartered banks followed with a similar increase to their preferred corporate borrowers. Finance Minister Turner has asked the chartered banks not to reduce credit to small businesses in Canada, nor to areas of the country which are considered slow growth regions. Therefore, the main intent of the present policy is to curtail the amount of financing available for consumption, or consumer loans, which has been a major source of the inflationary pressures in the economy during the past year.

In spite of recent moves to curb inflationary pressures, **consumer spending in Canada** is expected to be in excess of 10 per cent in 1973. Already for the first 2 months of 1973, sales of motor vehicles in Canada are considerably ahead of the first 2 months of 1972. Our earlier forecast of a greater than 10 per cent increase in **consumer spending in Alberta** in 1973 still holds.

Consumer and Corporate Affairs Minister Herb Gray announced April 10, 1973, that a food prices review board will be established before the end of April. Its primary function will be to monitor increases in food prices and furnish the government and parliament with details regarding the increases. This announcement preceded adoption of the major report of the Special Commons Committee on Food Prices in the House of Commons on April 17, 1973.

ALBERTA – PROVINCIAL AFFAIRS

Due to the strong domestic and U.S. demand for oil and gas in 1972, Alberta's average daily oil production rose to a record level exceeding 1.3 million barrels. However, for the third consecutive year, conventional crude oil reserves declined, leaving an estimated 17 years of supply at 1972 production levels. Total yearly production in 1972 outpaced recoverable reserve additions by close to 300 million barrels.

Total production of marketable natural gas in Alberta increased by 11 per cent in 1972 over 1971 to close to 2 trillion cubic feet. Proved remaining recoverable reserves of marketable natural gas, however, declined by 0.8 trillion cubic feet in 1972 over 1971, with no estimate given for the remaining years of production at 1972 production levels. Large production, the lack of significant new discoveries and the downward adjustment of reserves of a few large fields were cited by Alberta's Energy Resources Conservation Board as reasons for the decline in these recoverable reserves.

The expected price increases for Alberta natural gas should partially offset the decline in recoverable reserves as certain types of gas pools previously not considered productive should now become economically recoverable.

ALBERTA INTERNATIONAL AFFAIRS

At the recent **Canadian Business Outlook Conference** sponsored by "The Conference Board in Canada", Professor Arthur M. Okun, Senior Fellow, Brookings Institution, discussed the **U.S. economic outlook for 1973**. He stated that the positive influences in the U.S. economy are being reflected by business forecasters, who are expecting that the U.S. GNP will increase by close to 6½ per cent in real terms in 1973; employment is expected to increase; the unemployment rate could drop close to 4.5 per cent; and profits will be up by about 15 per cent. The U.S. economy is still in the recovery phase of the business cycle with plant and equipment spending increasing. Business inventory expansion, as in Canada, is not that strong at present, but it is expected to increase during 1973.

Professor Okun suggested that the key element in the recent stabilization of the U.S. economy has been the success of wage and price controls in reducing the inflation rate to 3 per cent. He indicated that an important factor in this success was the 5½ per cent wage increase limit. However, an easing of these controls through the voluntary wage and price control system may not prove successful depending upon the outcome of future wage negotiations. For 1973, the **chief area of resolution**, therefore, will be continued wage moderation. This will depend upon the attitude of organized labour in the U.S., with the possibility of more wage controls, or even "cost of living" controls.

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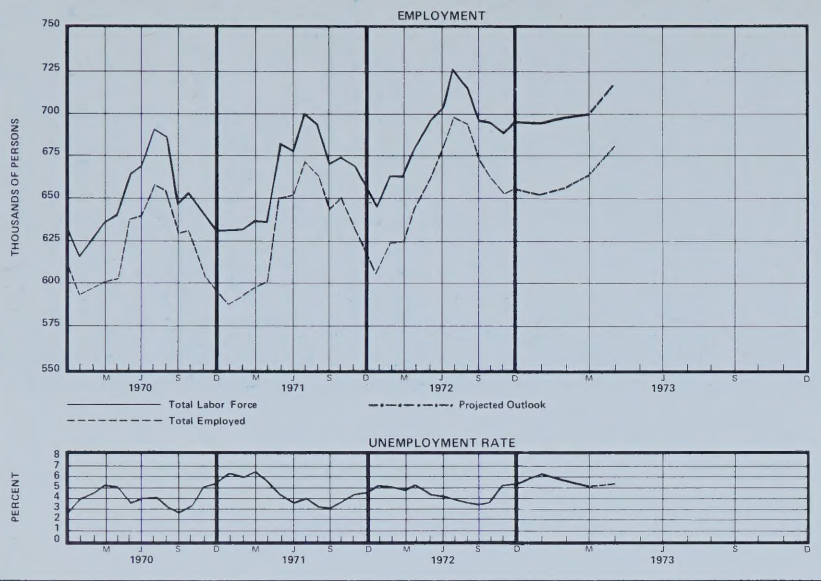
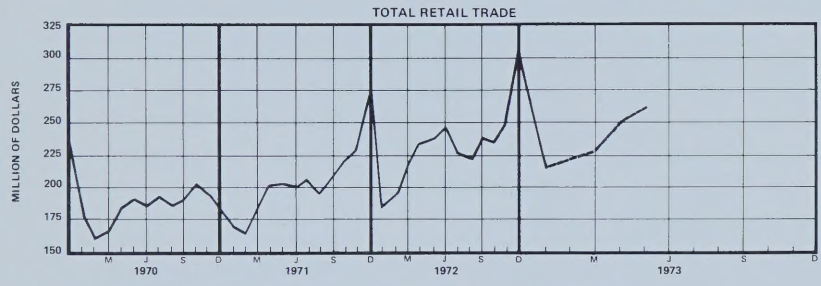


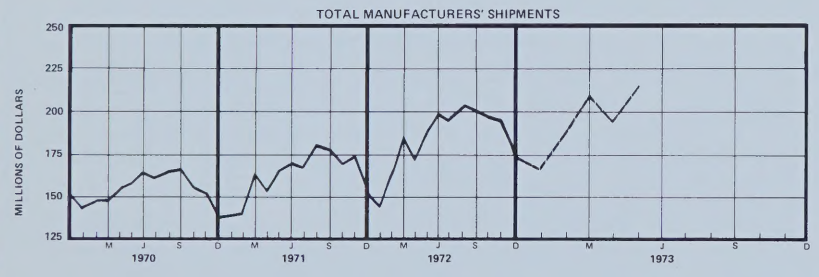
EMPLOYMENT

March's unemployment rate declined to 5.1 per cent due to a greater gain in total employed than in the total labour force. Total employed increased by an estimated 7,000 persons to 664,000 and the total labour force rose to an estimated 700,000 a gain of 4,000. For April, the labour force and employed are expected to increase to close to 717,000 and 679,000, respectively, resulting in 38,000 unemployed. Slight gains in the total of unemployed are expected due to an increased number of university students seeking summer and permanent employment during April. Prospects for May are for equivalent increases in both the labour force and total employed.



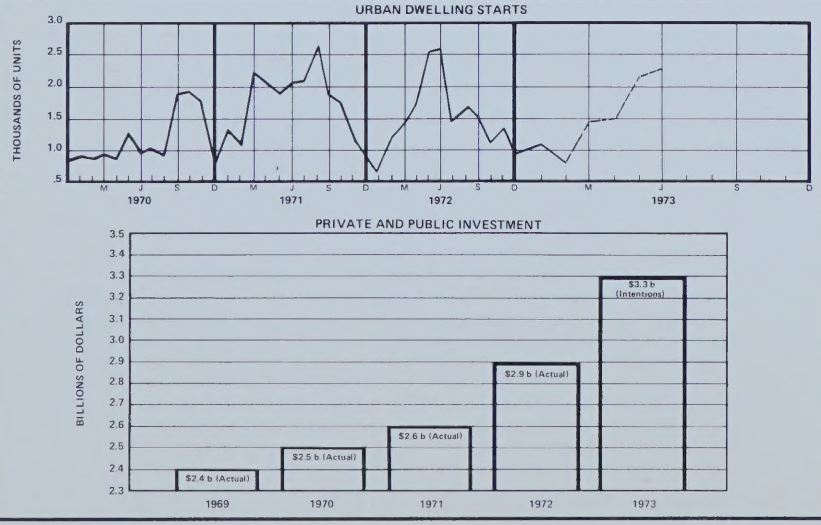
RETAIL TRADE

Retail trade in January was estimated at close to $215 million, an increase of 16 per cent over January, 1972. February and March totals are still expected to be close $222 million and $229 million, respectively, with April's total to reach $253 million. May's total should reach over $260 million.



MANUFACTURERS' SHIPMENTS

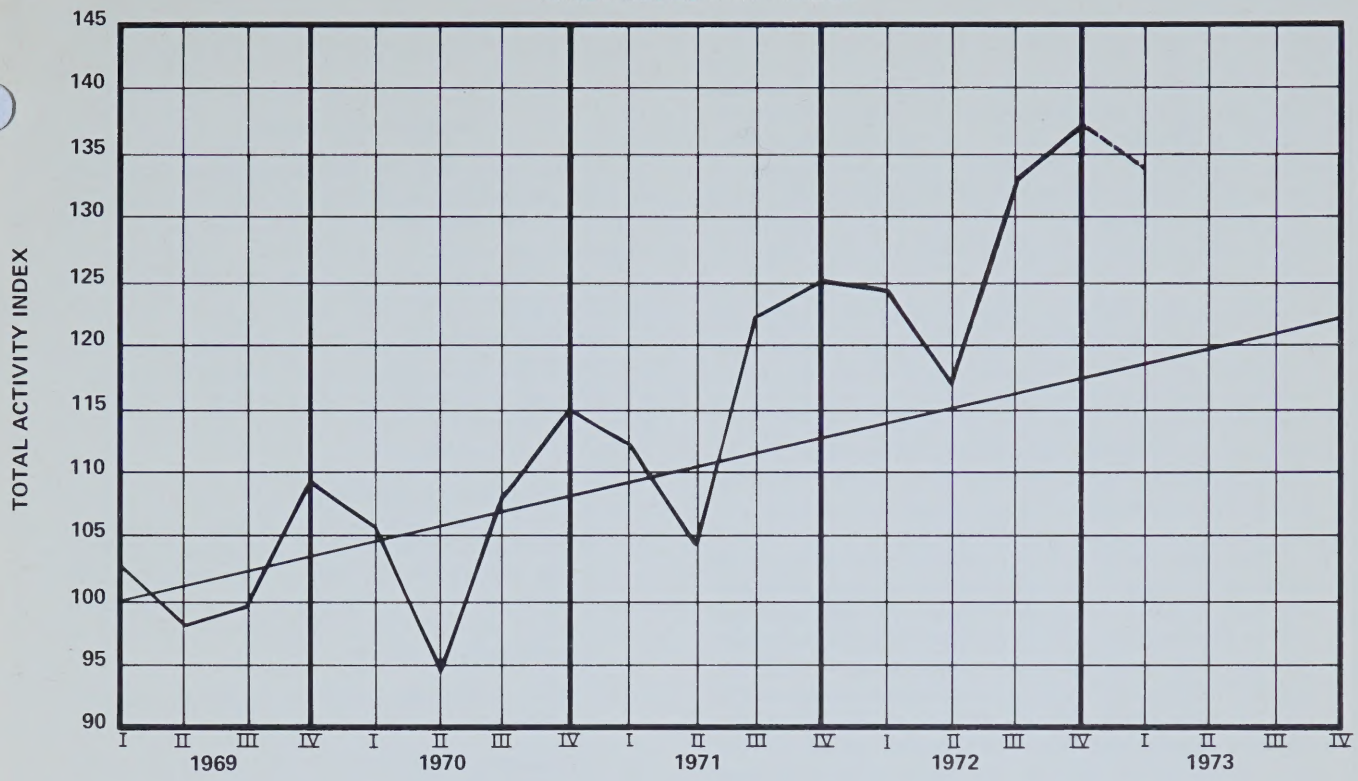
Revised 1972 manufacturers' shipments data released by the Alberta Bureau of Statistics indicated a $300 million increase over the revised 1971 figure to $2,370 million due to increases recorded in nearly all manufacturing industries. Prospects for January through May as reported last month still appear valid. April's revised forecast of $195 million will be exceeded by May's total of over $210 million.



HOUSING AND INVESTMENT

Urban dwelling starts in February totalled 793, a decrease of 37 per cent from February, 1972. The decline is a result of a decrease in apartment and rowhouse starts, expecially in Edmonton. The prospects for urban dwelling starts for March indicate a total of close to 1,500. A preliminary forecast for the second quarter of 1973 indicates total starts of close to 6,000. Revised capital and repair expenditures for Alberta in 1972 totalled $2,925 million, an increase of nearly 8 per cent over 1971. Intentions for 1973 are expected to be close to $3,282 million, an increase of over 12 per cent from 1972.

ALBERTA'S ACTIVITY INDEX



PERTINENT ECONOMIC INDICATORS FOR THE PROVINCE OF ALBERTA

INDICATOR	Percentage Change in Volume Activity Total Year 1971 - 1970	 Total Year 1972 - 1971	 Year to Date 1973 - 1972
MANUFACTURING			
Slaughtered Meat Production	+13.6	+ 3.3	- 2.6 (Jan. – Feb.)
Slaughtered Meat Exported	+12.6	+ 5.3	- 3.7 (Jan. – Feb.)
Refinery Production	+10.7	+21.4	+12.5 (Jan.)
Cement Production	+ 4.5	+ 3.5	+25.8 (Jan. – Feb.)
MINING			
Oil Production	+ 9.4	+20.8	+19.8 (Jan.)
Gas Production	+10.1	+16.8	+14.1 (Jan.)
Footage Drilled	+ 1.8	+21.9	+17.7 (Jan.)
Number of Wells Drilled	+ 9.6	+13.1	+63.8 (Jan.)
Coal Production	+31.7	+14.1	+15.5 (Jan.)
CONSTRUCTION			
Urban Dwelling Starts	+54.0	- 15.4	- 3.2 (Jan. – Feb.)
Rigid Insulation Board Shipments to Alberta	+15.6	+ 5.9	+56.4 (Jan. – Feb.)
Metal Shapes Shipments (Est'd)	- 4.0	+ 7.6	+13.0 (Jan.)
AGRICULTURE			
Grain Shipments	+ 8.8	- 2.9	- 3.2 (Jan. – Feb.)
Livestock Marketed	+15.1	- 1.6	+ 2.5 (Jan.)
Farm Cash Receipts	+ 9.8	+14.0	+61.8 (Jan. – Feb.)
FORESTRY			
Lumber Production	+ 6.1	+16.0	+48.3 (Jan.)
Lumber Sales	+34.7	+ 5.7	+43.6 (Jan.)
Lumber Exports	+26.5	+24.7	+90.0 (Jan.)
Pulpwood Production	- 34.9	+47.8	+214.0 (Jan.)

UNEMPLOYMENT RATE (Unadjusted)	March 1973	February 1973	March 1972	February 1972
Canada	6.8	7.3	7.4	7.3
Alberta	5.1	5.6	4.9	5.0
CONSUMER PRICE INDEX (1961 = 100)				
Calgary-Edmonton	138.1	137.6	131.4	131.3

Professor Okun, however, expects that wage and price moderation has a good chance of becoming a reality.

Robert M. Fowler, President, C. D. Howe Research Institute, discussed Canadian-American Economic Relations at the Conference. Mr. Fowler stressed that the present attitude in Canada toward the U.S. should be reconsidered and a more positive position should be taken towards trade policies. He stressed that we are very fortunate to have a good trading partner as the U.S., a fact we should appreciate.

In a recent series of speeches, Industry, Trade and Commerce Minister Gillespie indicated that although improvement in the U.S. balance of payments situation is critical, the solution does not lie in unilateral actions, but in multilateral trade negotiations. Specifically, what must be achieved is world-wide trade liberalization and reform of the international monetary system to prevent countries from accumulating persistent trade surpluses or deficits.

The major goal of the Canadian trade policy is to obtain world-wide trade liberalization of both tariff and non-tariff barriers. To do this, Canada will take an active role in the upcoming GATT negoitations and expects barriers to trade, including her own, will be significantly reduced. The extent of trade between Canada and the U.S. is now at $27 billion and will expand in the future. Mr. Gillespie suggests that future talks between Canada and the U.S. should concentrate on the resolution of individual problems rather than on a package policy to solve them all simultaneously.

Upcoming bilateral talks between Canada and the U.S. will likely centre around the U.S. 10 per cent surcharge imposed in August, 1971, and the rumours that a further surcharge may be imposed if the U.S. balance of payments is not improved; DISC; international monetary reform; the countervailing duty on Michelin tires entering the U.S.; the Burke-Hartke Bill; and the 1965 Canada-United States Automotive Agreement.

Each of the above measures are part-and-parcel of what appears to be a growing protectionist policy in the United States. However, Mr. Gillespie considers the emphasis on the deteriorating trade relations between Canada and the United States an over-reaction by the press and he feels confident that mutually beneficial solutions will result from future negotiations. For one goal of both countries is greater access to world markets and, therefore, the answer lies not in protectionism, but in further trade liberalization.

In a recent speech to the U.S. Congress, President Nixon outlined future trade strategy and accompanying legislative proposals. Essentially, the proposal calls for reduction of trade barriers on a multilateral basis (especially those of Japan and Europe), the reduction of non-tariff and other barriers that exclude agricultural products, increased powers to raise temporary trade barriers against imports affecting U.S. corporations and workers, the stiffening of U.S. countervailing duties and anti-dumping laws and some administrative changes in mineral imports to the U.S. Mr. Nixon is apparently eager to solve the Canada-U.S. bilateral trade problems without resorting to retalitory measures. The willingness to settle Canada-U.S. trade difficulties in this way is encouraging to Canadians in light of recent waves of protectionist feelings appeased in the U.S.

BUSINESS OUTLOOK

At the same **Canadian Business Outlook Conference** the short term economic outlook for Canada was presented. Further discussion focused on business and social needs, the new challenges arising from shifting international trade patterns, and other developments likely to affect Canadian economic growth in the 1970's.

Dr. Douglas Peters, Vice-President and Chief Economist of the Toronto-Dominion Bank, emphasized that 1973 will be a year of strong business expansion, shortages and persistent inflation. He provided the following outlook for the Canadian economy in 1973:

- The **Consumer Price Index** is expected to increase by close to 5¼ per cent in 1973, resulting in continued inflationary pressures and will represent the highest level of inflation since 1951. The prospects for 1974 are for a better price performance. However, Dr. Peters indicated that **controls on prices** are not necessary.
- Only a small decrease in the **unemployment rate** is expected.
- **Growth in GNP** will be close to 12 per cent in 1973, or 6.5 per cent in real terms.
- 1973 will be characterized by **strong business expenditures and shortages** in skilled labour, plant capacity and inventories in Canada. Energy shortages will persist in the U.S.
- **Consumer spending** will be strong again in 1973. An overall increase of 11 per cent is expected, as a result of a 13 per cent increase in **durables spending** and less on non-durables.
- **Personal disposable income** should increase by close to 11 per cent.
- **Wages and salaries** are expected to increase by 12.5 per cent in 1973.
- **Housing starts** should total close to 245,000, down slightly from 1972's total of 250,000.
- The value of Canada's exports in 1973 are expected to increase by 20 to 25 per cent to over $24 billion. **The trade sector is expected to sustain growth in 1973 rather than impede it.**
- The range of movement of the Canadian dollar in 1973 is expected to be between $.98 and $1.03 U.S.

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